

Message Text

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PAGE 01 SURABA 00135 050903Z

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C O N F I D E N T I A L SURABAYA 0135

E.O. 11652: GDS

TAGS: ETRD, ECON, ID

SUBJECT: RESULTS OF ANTI-SMUGGLING CAMPAIGN IN EAST JAVA

REF: (A) SURABAYA 104, (B) JAKARTA 1729, (C) JAKARTA 2970

1. SUMMARY: EFFECTS OF ANTI-SMUGGLING CAMPAIGN CONTINUE TO BE FELT BY EAST JAVA BUSINESS COMMUNITY. IMPORTERS OF FINISHED CONSUMER GOODS, AS WELL AS MANUFACTURERS FEELING PRESSURE AS SUPPLIES ON HAND DROP, IN SOME CASES TO PRECARIOUS LEVELS. COUNTER PRESSURE IS BEING APPLIED ON GOVERNMENT BY SOME MAJOR IMPORTERS TO BACK OFF ON PROGRAM, WHILE SLUMPING BUSINESS CLIMATE THREATENS TO GROW WORSE. END SUMMARY.

2. CONTINUATION OF INTENSIVE ANTI-SMUGGLING CAMPAIGN STILL CAUSING PROBLEMS IN EAST JAVA. ALTHOUGH MOST ANTI-SMUGGLING EFFORTS TO DATE HAVE FOCUSED ON TEXTILE IMPORTERS, SEALING OF WAREHOUSES AND INVENTORYING OF NEARLY ALL IMPORTED GOODS HAS HURT MOST BUSINESSES WHICH DEPEND ON IMPORTS. AS RETAIL INVENTORIES OF CONSUMER ITEMS ARE SOLD, SELLERS ARE UNABLE TO OBTAIN ADDITIONAL MERCHANDISE, AND RUMORS ARE SPREADING THAT NEW ROUND OF INFLATION

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PAGE 02 SURABA 00135 050903Z

WILL HIT CONSUMER GOODS MARKET IF NEW GOODS ARE NOT MADE AVAILABLE.

AS INDISCRIMINATE SEALING OF WAREHOUSES CONTINUES, NON-TEXTILE IMPORTERS ARE UNABLE TO MOVE STOCKS, AND THEIR BANKERS ARE BEGINNING TO APPLY PRESSURE FOR REPAYMENT OF CREDITS. SINCE MANY PRIVATE BANKS WERE ALREADY SUFFERING FROM TARDY REPAYMENTS AND DEFAULTS BECAUSE OF PERTAMINA TROUBLES, NEW CRISIS PUTS SOME OF THEM CLOSER TO BANKRUPTCY.

3. IN ADDITION TO IMPORTERS OF CONSUMER GOODS, LOCAL MANUFACTURERS WHO USE IMPORTED MATERIALS IN THEIR FACTORIES ARE BEGINNING TO FEEL THE SQUEEZE. IN ONE CASE, A PLANT MANUFACTURING DRINKING GLASSES MAY BE FORCED TO CURTAIL PRODUCTION, NOT BECAUSE OF A SHORTAGE OF RAW MATERIALS FOR MAKING GLASS, BUT BECAUSE IMPORTS OF PAPER USED TO MAKE CARTONS ARE IN A SEALED WAREHOUSE. ALL IMPORTS FROM FIVE ASIAN COUNTRIES: JAPAN, SOUTH KOREA, TAIWAN, HONG KONG, AND MALAYSIA, ARE BEING CLOSELY CHECKED, NO MATTER WHO IS IDENTIFIED AS THE IMPORTER.

4. RE REFTEL C PARA 3, ONE LOCAL BUSINESSMAN HAS TOLD CONOFF CRACKDOWN IS SURE TO FAIL BECAUSE MANY ELEMENTS OF GOI WHICH ARE DEPENDENT ON ILLEGAL CUSTOMS REVENUES AND BECAUSE OF HIGH LEVEL INVOLVEMENT IN SMUGGLING. HE SAID THAT THIS WEEK IN SINGAPORE THREE MAJOR SURABAYA IMPORTERS, INCLUDING THE INDIAN MERCHANT WHOSE TOLARAM DEPARTMENT STORE WAS THE FIRST CLOSED IN SURABAYA AFTER THE CRACKDOWN, CALLED ON LIEM SWIE LIONG AND THREATENED TO START NAMING NAMES IF PRESSURE IS NOT REDUCED. LIEM IS BUSINESS PARTNER OF MRS. SUHARTO IN SEVERAL VENTURES, INCLUDING THE P.T. BOGASARI FLOUR MILLS IN SURABAYA AND JAKARTA, AND HE IS CONSIDERED TO BE HIGHLY INFLUENTIAL WITH SUHARTO FAMILY. ACCORDING TO SURABAYA BUSINESSMAN, THREE SURABAYA MERCHANTS TOLD LIEM THAT GOVERNMENT SHOULD GO AFTER SMALL TIME IMPORTERS, SACRIFICE THEM TO THE LEGAL SYSTEM AND PRESS, AND THEN DROP THE CAMPAIGN IMMEDIATELY.

5. THIS WEEK ALSO, PROBOSUTEJO, THE YOUNGER BROTHER OF PRESIDENT SUHARTO, VISITED SURABAYA AND REPORTEDLY TOLD MANAGERS OF FACTORY HERE, IN WHICH HE HAS AN INTEREST, THAT ANTI-SMUGGLING CAMPAIGN HAS BEEN PURSUED WITH UNACCUSTOMED VIGOR IN ORDER TO DEFLECT SPOTLIGHT FROM PERTAMINA DEBACLE. EXCEPT FOR IBNU SUTOWO RESIGNATION, WHICH WAS FRONT PAGE STORY IN ALL LOCAL NEWSPAPERS MARCH 5, ANTI-SMUGGLING CAMPAIGN HAS INDEED BEEN DOMINANT STORY
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PAGE 03 SURABA 00135 050903Z

HERE SINCE ASEAN SUMMIT ENDED IN BALI. AS FAR-FETCHED AS REPORTED PROBOSUTEJO STORY MAY BE, THERE IS ONE SURE CONNECTION BETWEEN ANTI-SMUGGLING PROGRAM AND PERTAMINA TROUBLES. CURRENT CAMPAIGN HAS EXACERBATED LOCAL BUSINESS COMMUNITY PROBLEMS, AND MANY MERCHANTS AND BANKERS ARE TREMBLING IN ANTICIPATION OF NEXT SHOCK. SLUGGISH LOCAL MARKET, WHICH HAD SHOWN SIGNS OF GRADUAL RECOVERY FROM PROLONGED BUSINESS SLUMP, NOW THREATENS TO COME TO STANDSTILL UNLESS IMPORTED GOODS BEGIN TO SEEP BACK

INTO THE MARKET AGAIN SOON.
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